

Social Reconstruction and Peace Building in Kenya:

A Consultative Forum for CEOs of Microfinance Institutions

FINAL REPORT ON THE FORUM

May 2008

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CONTENTS

EXECUTIVE SUMMARY	1
Welcome, Introductions & Opening Remarks	3
Forum Overview & Objectives	3
Key Note Address: The Role of Microfinance in Social Reconstruction	3
Reflections on Post-Election Violence and the Mediation Process in Kenya: Implications of the South African Experience	4
Building Partnerships for Sustaining Peace: Kenyan History and Experience	5
MFI's Role in Social Reconstruction and Peace Building	5
Social Reconstruction and Peace Building Action Plans	5
Plenary Report on the Way Forward	6
APPENDIX	
CEO Consultative Forum Agenda	
List of Participants	
Terms of Reference	
Schedule of Activities	

EXECUTIVE SUMMARY

The one-day Consultative Forum for CEOs of Microfinance Institutions on Social Reconstruction and Peace Building in Kenya was an industry-wide response to the crisis arising from the general election in December 2007.

The main objectives of the forum were:

- Create space for individual and institutional sharing on the experiences and responses to post-election violence and lessons for the future
- Develop awareness of the principles and practices of social reconstruction and peace building
- Explore the link between microfinance and peace building in Kenya
- Identify common strategies and a program of actions for conflict mitigation and responsive interventions by the MFI industry

Social Reconstruction and Peace Building is one component of larger industry-wide response designed by the Association for Microfinance Institutions and its partners. AMFI has spearheaded a multi-level and interconnected rescue package designed to mitigate and overcome the fallout from the post-election violence that negatively impacted microfinance institutions and their clientele.

Assisting AMFI in response to the aftermath caused by the crisis, the Financial Service Deeping Trust (FSD) and the United States Agency for International Development (USAID) have supported the industry effort.

The microfinance industry rescue package is underpinned by three connected interventions, namely:

*A **Liquidity Fund** supporting MFIs and SACCOs whose clients have experienced repayment problems.* The liquidity fund is made possible through a generous proviso from the FSD Trust used to create a **Development Credit Authority** loan guarantee between USAID and two financial institutions. The total guaranteed amount is \$10 mm with fifty percent of the risk shared by each financial partner.

*A **Technical Assistance Fund** complimenting the liquidity fund to aid banks and wholesalers in their due diligence and credit analysis of distressed MFIs and SACCOs.* The fund will also support product innovation and development for institutions working in areas negatively impacted by violence, tribal clashes, and resettlements.

*A **Conflict Prevention and Mitigation Response** effort to aid social reconstruction and peace building.* CPMR will educate financial institutions on and link them to existing peace networks and structures as a means to mitigate and overcome destructive behaviors. In addition, financial service providers and peace networks will incite communities to lobby for incremental political improvements through a common platform of economic growth and development.

The one-day forum was facilitated by four leading Kenyan peace activists. The event was opened by Ambassador Kipligat and he set the tone for a successful forum that brought

together a wide-range of financial service providers and others that supported the intervention.

This report is follows the Forum Agenda as outlined in the appendix.

Welcome, Introductions & Opening Remarks

Ben Nkungi (AMFI)

Mr. Nkungi, CEO of AMFI, opened the Forum, introduced each participant, creating space for Sam Kona, one of Kenya's leading peace activists outline the day's objectives.

Forum Overview & Objectives

Sam Kona (DAI)

Mr. Kona described the rationale behind the industry's social reconstruction and peace building response as recognition by the microfinance sector that it had a valuable role to play in returning Kenya to normalcy and helping build long-lasting solutions that counter balance and offset destructive behaviors. To do accomplish this goal, the microfinance sector should leverage its strengths as providers of essential financial services and as businesses that interact across all ethnic dimensions throughout the country. To get it right, however, MFIs need to partner with experts in conflict, prevention and mitigation and their associated networks. This is the only way to build an effective social reconstruction and peace building response driven by MFIs.

Key Note Address: The Role of Microfinance in Social Reconstruction

Ambassador Bethuel Kipligat

Ambassador Kipligat emphasized that in order to understand peace in Kenya, one must first understand ethnicity and history, knowing that violence is not unique to election cycles. Although Kenya is extremely vulnerable during election cycles due to the strong political element. When ethnic groups live close together, immediate proximity creates fertile ground for flare-ups because these groups and their sponsors compete for power and use any means possible to attain it.

In closing, the ambassador outlined a way forward, namely:

- Microfinance works within multi-ethnic communities throughout Kenya and it understands how to engage ethnic groups, including the political and economic importance of maintaining peaceful coexistence. Therefore it makes sense for microfinance institutions to play a key role in rebuilding Kenya and upholding peace throughout the country.
- Synergize with peace networks, working together, leveraging strengths, but don't rely on the government for action. Be independent.
- Economic growth, poverty alleviation and peace are crucial elements to creating conditions for sustained development and freedom from violent strife.
- The problems faced today are owned by Kenyans. Outsiders cannot solve Kenyan problems but they can help by offering complimentary assistance.

Reflections on Post-Election Violence and the Mediation Process in Kenya: Implications of the South African Experience

Dekha Ibrahim (DAI)

Mrs. Ibrahim played a video that described the apartheid experience in South Africa and how the police interacted with communities before and afterwards. The police were as drivers of violence (pre-apartheid) and then struggled as peace builders (post-apartheid) but in a continuous atmosphere of mutual suspicion and distrust.

She led the group through a discussion that outlined similarities and differences between South Africa and Kenya.

Similarities

- Lack of trust
- Youth involvement
- Distrust of police
- Uncontrolled violence
- High frustration
- Religion and spirituality
- Exploitation of grievances by criminal elements
- A mutual blame game

Differences

- In South Africa, race was the issue not ethnicity
- In South Africa, the issue was apartheid but in Kenya the issue(s) is not clearly defined
- In South Africa, the issues that drove conflict and violence were identified and articulated
- In South Africa, police focused on issues
- In South Africa, feedback loops were created to strengthen information flows between communities and police
- In South Africa, police worked to create trust

Ms. Ibrahim then led a discussion on the role of microfinance in social reconstruction and peace building.

The Role of Microfinance

- Focus on youth
- Create a new way of relating with communities, tie into existing peace structures and create new ones where they do not exist
- View clients as owners and partners
- Consider credit officers as activists
- Target young people – children in school before they become disenfranchised youth
- Look beyond tradition microfinance business
- Reconsider the role that gender and age play in society and use it in a new and positive way

Building Partnerships for Sustaining Peace: Kenyan History and Experience

George Wachira (Nairobi Peace Institute) and Francis Nguli (PeaceNet)

Mr. Wachira described a system's approach to peace building that works at four interconnected levels.

The Four Levels

- System (e.g. land)
- Sub-systems
- Issues (ownership and rent)
- Relationships (owners and renters)

This approach focuses on engagement at all levels with appropriate interventions and at precise times. Within his structure, strategies for peace building are:

- Comprehensive (working at all levels)
- Interdependent (the microfinance industry and peace builders work together)
- Infrastructure oriented (blending people, institutions, and resources)
- Sustainable (reinforced by public and private perceptions of what is needed and actualized by both)
- Strategic (based on choices of who to work with, where, when and how)

Mr. Nguli led the group through a presentation on the various peace groups and networks in Kenya. A copy of the power point presentation accompanies this report.

MFI's Role in Social Reconstruction and Peace Building

Sam Kona (DAI)

Social Reconstruction and Peace Building Action Plans

Facilitated Working Groups

Mr. Kona's time was centered on four areas: interventions, skills, training and scenarios.

Under *interventions*, the group acknowledged that changed circumstances require similar but also new, complimentary approaches, especially with regard to peace building. To that end, financial service providers must leverage their individual strengths while working through AMFI as the industry voice in matters of common relevance, such as democracy and governance with private and public peace actors, including government institutions.

In *skills*, the main area of concern was how to mainstream social reconstruction and peace building into the core business of microfinance and how to widely inculcate the notion across institutions in a general sense, like the cause of sustainability, but in a more precise and practical way through specific delivery channels as is done by credit officers with financial products. In this way, peace building might best be treated as another product or service offering – a business and personal enhancement for both the microfinance institution and its

clientele, much in the same way product offerings simultaneously serve the needs of both seller and buyer.

With regard to *training*, it was agreed that microfinance institutions require training in peace building and related activist methodologies, just like employees do in functional business disciplines. It was agreed that training needs differed across the institution from general to very specific: board members, senior management, operational personnel with a special emphasis on credit officers, and MFI clientele (since they are the first responders and able to work for the benefit of themselves and their financial service provider).

Under *scenarios*, the group attempted to synthesize the day's learning and discussions into an actionable plan. Through this iterative process, participants discussed various ideas, including:

- Microfinance institutions do not understand peace work and likewise peace activists do not understand microfinance. Therefore, practical and lasting solutions can not be created until mutual understanding is attained.
- AMFI should lead an effort for the two different communities (microfinance and peace) to develop a common and shared understanding of how each functions so that solutions can be developed. This will require AMFI to create a team that does the analytical, design and implementation work by partnering with its members and others outside its membership, including consultants, donors, etc.
- Microfinance institutions are different and they work in various geographies that require unique approaches. AMFI and its team should interface with these disparate groups of institutions across Kenya in order to understand their communities, operations and approaches to best define shared and customized solutions for the industry and individual MFIs.
- AMFI should engage a representative sample of institutions to determine need and scope.
- At this point in time, the industry considers it has a substantial role to play in peace building and reconstruction but it does not know how. AMFI's work will define the how.

Plenary Report on the Way Forward

Ben Nkungi (AMFI)

Mr. Nkungi outlined the way forward and closed the forum.

The Way Forward

- Produce a report on the forum.
- Develop Terms of Reference that AMFI will implement using a team approach described above. A key deliverable from the ToRs will include a roadmap for an industry-wide peace building intervention.
- The ToRs will describe in more detail participant comments.
- The ToRs will accompany this report as does the Schedule of Activities.

Social Reconstruction and Peace Building in Kenya: A Consultative Forum for CEOs of Microfinance Institutions

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AGENDA

Venue: Serena Hotel, Nairobi

Date: April 22, 2008

Time: 8.00 am to 4.30 pm

The main objectives of the forum are:

- Create space for individual and institutional sharing on the experiences and responses to post-election violence and lessons for the future
- Develop awareness of the principles and practices of social reconstruction and peace building
- Explore the link between microfinance and peace building in Kenya
- Identify common strategies and a program of actions for conflict mitigation and responsive interventions by the MFI industry

Forum Calendar

- | | |
|-----------------|---|
| 8.00 am | Refreshments |
| 8.30 am | Welcome, Introductions & Opening Remarks
Ben Nkungi (AMFI) |
| | Forum Overview & Objectives
Sam Kona (DAI) |
| | Key Note Address: The Role of Microfinance in Social Reconstruction
Ambassador Bethuel Kiplagat |
| 9.30 am | Reflections on Post-Election Violence and the Mediation Process in Kenya:
Implications of the South African Experience
Dekha Ibrahim (DAI) |
| 10.00 am | Refreshments |
| 10.30 am | Continued: Reflections on Post-Election Violence and the Mediation Process
Dekha Ibrahim (DAI) |
| 11.00 am | Building Partnerships for Sustaining Peace: Kenyan History and Experience
George Wachira (Nairobi Peace Institute) and Francis Nguli (PeaceNet) |
| 1.00 pm | Lunch |
| 2.00 pm | MFI's Role in Social Reconstruction and Peace Building
Sam Kona (DAI) |
| | Social Reconstruction and Peace Building Action Plans
Facilitated Working Groups |
| | Plenary Report on the Way Forward
Ben Nkungi (AMFI) |
| 4.30 pm | Forum Concludes |

List of Participants

	Name	Organization
1.	Ambassador Kipligat	NPI Africa, K-Rep Bank
2.	Benjamin Nkungi	Association of Microfinance Institutions
3.	Carol Kimani	Association of Microfinance Institutions
4.	Dekha Ibrahim	DAI
5.	Sam Kona	DAI
6.	Colleen Green	DAI
7.	Mark Rostal	DAI
8.	Joyce Litunya	DAI
9.	George Wachira	NPI Africa
10.	Mutuku Nguli	PeaceNet Trust
11.	David Ferrand	FSD Trust
12.	Beatrice Obara	Kenya Gatsby
13.	Aleke Dondo	K-Rep Development Agency
14.	Beth Mwangi	Ideal Business Link
15.	Esther Karani	WEEC
16.	Kimanthi Mutua	K-Rep Bank
17.	Mark Achola	AIG Insurance
18.	Mano Kamaleson	Opportunity International
19.	Anne Mutahi	Jitegemee Trust Ltd
20.	Francis Kihiko	Jitegemea Credit
21.	Rose Wanjohi	K-ECLOF
22.	Pauline Ngari	KWFT
23.	Moses Gitau	Cooperative Bank of Kenya
24.	Maina Waithaka	Bimas
25.	Phylis Mbungu	SMEP
26.	Susan Saiyorri	Jamii Bora
27.	Costa Malai	Sunlink
28.	Mwai Nzuki	Sisdo
29.	Julius Chege	Pawdep
30.	Adet Kachi	Yehu
31.	Lydia Koros	Faulu Kenya
32.	Carol Mulwa	Oiko Credit
33.	David Kitusa	Barclays
34.	Andrew Mnjama	Swiss Contact
35.	Luke Kinoti	Fusion Capital
36.	David Ruchiu	Kadet
37.	John Rigby	USAID

TERMS OF REFERENCE

DEVELOPMENT OF MICRO-FINANCE INDUSTRY PEACEBUILDING INITIATIVE

1. BACKGROUND

The crisis arising from the general election held in Kenya at the end of 2007 has had a disastrous impact on the livelihoods of large numbers of Kenyans. Inevitably many, if not most, of these are among the more vulnerable and poorer in society. While the economy as a whole has been impacted by the crisis it is clear that the informal sector in the areas most affected by violence are likely to have suffered the greatest impact. Reports from informal settlements in affected areas indicate that in some cases whole markets have been destroyed. Even where the violence has subsided, economic activity is still subdued as a result of the persistent threat of its return through reversals in the implementation of the peace accord or other disruptive processes. Transport of both people and goods across the country – notably within and to the Rift Valley and Western Provinces – is operating at much reduced levels and considerably higher costs. Ethnic tensions and sporadic attacks continue, especially in these two provinces.

There is a potentially major impact on micro-finance institutions (MFIs) with operations in the affected areas of Nyanza, Western, Rift Valley, Nairobi and Coastal Provinces. Many MFI members suffered losses. These range from the loss of family members in the worst case, to destruction of houses, business premises, assets, and stock as well as loss of businesses. Many people have been internally displaced in Kenya and are relying on either relatives or makeshift camps for survival. This will all inevitably give rise to loan repayment problems and a likely deterioration in the quality of affected portfolios.

2. OBJECTIVE

The objective is to rapidly develop an industry-wide program for peace building and reconciliation among affected communities through micro-finance institutions working in close collaboration with other key actors in the peace-building field.

3. SCOPE OF WORK

3.1 Consultation with potential MFI partners

The initiative has already received strong support from senior management of many institutional members of the Association of Microfinance Institutions (AMFI) at a seminar held in April 2008 to explore the potential role of MFIs in peace building and develop the concept. During this seminar, the senior managers of MFIs provided their top-level perspectives on the causes and consequences of post-election violence, and the broad impact on the industry. The seminar also acknowledged the urgent need for an industry-wide response to the post-election violence, and reaffirmed the importance of forging strategic partnerships in post-accord peace building and social reconstruction. In this regard, the senior management of MFIs agreed to work in synergy with other institutions, organizations and networks, especially the peace movement community in Kenya. In terms of strategy and approach, the seminar recommended a bottom-up approach that captures the experiences and perspectives of the grassroots.

TERMS OF REFERENCE

A number of institutions volunteered to participate in the next stages of development of the AMFI peace building initiative. Those identified for participation in the first phase of work by AMFI are those with a strong geographical focus on the areas affected by the post election violence and with extensive operations. These are:

- Jamii Bora
- Kenya Women Finance Trust (KWFT)
- Faulu Kenya
- Adok Timo
- K-Rep Bank
- Kenya Agency for the Development of Enterprise and Technology (KADET)
- Small & Micro Enterprise Program (SMEP)
- Jitegemea Credit Scheme
- Business Initiatives and Management Assistance Services (BIMAS)
- Yehu Microfinance Trust

Some, for example Faulu and KWFT, have already started work on peace building, counseling and reconciliation. Direct consultations should be made with the senior managers of these institutions to fully understand the operations of the institutions, the impacts of the post-election violence and the opportunities for peace building and reconciliation work. It is also an opportunity to provide further information and explanation on the background to the peace-building field in Kenya.

3.2 Field-based design

A strongly bottom-up design process is required to develop initiatives in which MFIs are able to add real value to the peace building and reconciliation processes. The design needs to be based on a strong understanding of the field-based operations of MFIs. This should aim to identify both the **challenges**, which MFIs face as a consequence of the post-election violence, and the **opportunities** through which MFIs can add real value to peace building and reconciliation processes.

It is vital to recognize that most MFIs have a social mission, which is fulfilled through meeting the financial needs of its clients/members. On one hand it is vital to the continuation of this mission that trust is restored within communities, on the other, MFIs have limits to the extent to which they can engage in broader social projects. The approach developed should capitalize on areas in which MFIs have a real comparative advantage in contributing to peace building and avoid those where it is absent. Key will be to develop grounded, practical ways to collaborate with local partners and networks from the peace building community, the local administration, faith based organisations and other non-governmental organisations.

This field phase will prioritize the most affected areas determined in consultation with the institutions consulted under 3.1 above. There will be a strong geographical focus to ensure that the relevant local actors are fully included within the design process. Much of the phase will involve working directly with credit officers and other branch staff with on-the-ground knowledge of the environment and the ability to identify where the best opportunities for practical work by MFIs lies.

The fieldwork would be as participatory as possible and the principal methods to be used would be individual and group interviews as well as observation.

3.3 Program design and curriculum development

Following the field phase, a detailed design for the initial program of work will need to be developed. This should follow best practice in both the micro-finance and peace-building fields. Pragmatism is

TERMS OF REFERENCE

essential. A rapid response is required in order to have the maximum impact. Furthermore, a number of MFIs have expressed a strong desire to move forward rapidly. A comprehensive program may take longer to design and therefore the detailed design of follow-up work may be deferred until a subsequent stage. The emphasis for now should be on work in which MFIs can rapidly contribute to peace building. It is anticipated that this will require the development of a curriculum for delivery to MFI clients and for which MFI credit officers or other front-line staff will need training. A training program together with a training of trainers program should be fully developed and documented. As far as possible, this should draw on existing proven material from the peace-building and micro-finance fields. Given the need to reach, large numbers of people efficiency is an important consideration. Costly residential courses should be avoided as far as possible, the opportunity cost of time spent by MFI staff in training taken into account and maximum use made of qualified trainers with strong local knowledge.

3.4 Support for pilot implementation

Following the development of the program the team should provide support to the piloting of material in the field. This should enable any problems to be identified at an early stage and rectified before full rollout across the industry. Given time constraints it is essential that the piloting and necessary revisions are undertaken expeditiously to ensure that the program can be rolled out at scale within as short a time period as feasible.

4. CONDUCT OF THE WORK

The team engaged to undertake this work will report directly to the CEO of AMFI and be fully accountable to him for all aspects of this assignment. Advisory input will be provided by Finance Sector Deepening (FSD) Kenya and the USAID Rural Finance Development Program. Comments will be provided to the team by AMFI on the deliverables produced at the three stage and these should be taken into account by the team in developing the work

5. OUTCOMES AND DELIVERABLES

The desired outcome from this work is a practical program on peace and reconciliation, which allow the micro-finance industry to directly contribute to rebuilding trust and co-operation in communities impacted by post-election violence. This will create permanent structures to mitigate and manage potential future problems before they turn to crisis

The specific deliverables required against each area of the scope of work are:

- A brief aide-memoire summarizing succinctly the key findings from the consultations and the implications for the design work (no later than 2 weeks from assignment commencement)
- A short report on the results of the field phase with a draft outline of the proposed program design approach (no later than 5 weeks from assignment commencement).
- A draft full design of the program and all relevant material should be submitted to AMFI for comment (no later than 7 weeks from assignment commencement). The revised documentation should be produced within one week of comments from AMFI.
- Design and test a pilot program.

Short report on the results of the pilot implementation (no later than 8 weeks from assignment commencement). Revised materials for full roll-out of the programmed should be delivered and approved with AMFI within 10 weeks of the assignment commencement.

TERMS OF REFERENCE

6. REQUIREMENTS

A team of two specialists is required: a peace-building specialist and a micro-finance specialist.

Peace building specialist requirements:

- Extensive knowledge of peace building initiatives and best-practice
- Detailed understanding of peace building organisations in Kenya
- Track record in the field
- Ability to work effectively at all levels from the grass-roots through to the policy level
- Strong capacity in developing training materials to support peace building work

Micro-finance specialist requirements:

- Strong knowledge of micro-finance operations at a senior management level
- Field-level experience
- Understanding of best practice in micro-finance
- Extensive knowledge of micro-finance sector in Kenya
- Good understanding and capability in development of training courses and materials in micro-finance sector

7. TIMETABLE

The work should start as soon as possible and no later than 28th May 2008. A program should be ready for full roll-out no later than 29th August 2008.

SCHEDULE OF ACTIVITIES

Development of Micro Finance Industry Peace building Initiative Schedule of Activities and Deliverables

Activity	Dates	Number of Days per person	Total man Days	Deliverables	Action by
1. Consultation with MFIs in Nairobi					
1.1. Preparations (developing methodology/designing questionnaire for consultations and setting up appointments)	May 28-30	5	12.5	Consultation Guide	Sam Rosemary Carol
1.2. Conducting consultations KWFT FAULU SMEP JITEGEMEA C.S. JAMII BORA KADET KREP BANK BIMAS	June 2 - 5	4	10		
1.3. Consolidation of information collected from CEOs	June 5-9	3	6	Aide memoire	Sam Rosemary
		Subtotal = 12	Subtotal = 28.5		
2. Fieldwork Assessment (2 days per Province, plus 2 days for travel to and fro Nairobi by air)					
2.1. Nyanza and Western Provinces	June 9 – 14	6	18		Sam Rosemary Carol
<u>Nyanza</u> -Adok Timo -KWFT -FAULU -SMEP -KADET	<u>Western</u> -KADET -SMEP -KWFT				
2.2. Coast Province KREP YEHU	June 17 – 20	3	6		Sam Rosemary

SCHEDULE OF ACTIVITIES

KWFT FAULU SMEP	June 24 – 27	3	6		Sam Rosemary
2.3. Rift Valley Province <u>NAKURU</u> <u>ELDORET</u> SMEP -KADET FAULU -KWFT KREP	June 30 – July 11	10	20	Draft Report	Sam Rosemary
2.4. Draft Report	21 st July	3	6		
2.5. Report Dissemination Workshop	July 22 - 25	4	8	Final Report	
2.6. Final Report		Subtotal = 29	Subtotal = 64		
3. Design and development of materials for the pilot project	July 28 – August 11	11	**24	Design Report	Sam Rosemary
4. Pilot Testing of the Materials Nairobi and Kisumu	18 th -22 nd August	5	15	Pilot Implementation Report	Dekha
5. Incorporating the results of the Pilot testing in the final materials	25 th - 29 th August	5	10		Sam Rosemary
		Subtotal = 21	Subtotal = 49		
TOTAL NO OF DAYS PHASE I		62 Days	141.5		
PHASE II					
6.Detailed proposal of the roll out program		15		Material for Roll- Out	
		Subtotal = 15			
	Grand Total	77 days		MFI Peace building Initiative	

**Dekha 2 days